S T A T E   O F   M I C H I G A N

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of **WISCONSIN ELECTRIC POWER COMPANY, WISCONSIN PUBLIC SERVICE CORPORATION,** and **UPPER MICHIGAN ENERGY RESOURCES CORPORATION** for approval, pursuant to MCL 460.6q, for the transfer of control of **WISCONSIN ELECTRIC POWER COMPANY's** Michigan electric distribution assets and **WISCONSIN PUBLIC SERVICE CORPORATION's** Michigan electric and natural gas distribution assets to **UPPER MICHIGAN ENERGY RESOURCES CORPORATION,** and related approvals.	)	Case No. U-18061

At the November 7, 2016 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER

On August 6, 2014, in Case No. U-17682, Wisconsin Energy Corporation and Integrys Energy Group, Inc., sought approval, pursuant to MCL 460.6q, for the transfer of control of Wisconsin Public Service Corporation (WPS Corp) and Michigan Gas Utilities Corporation (MGUC) from Integrys Energy Group, Inc., to Wisconsin Energy Corporation. On April 23, 2015, the Commission issued an order in that matter approving an Amended and Restated Settlement Agreement (ARSA) executed by the parties to that proceeding. Among other things, Paragraph 6g of the ARSA describes Wisconsin Energy Corporation's intention to petition the Commission for the creation of a Michigan-only jurisdictional utility at some point in the future. After receiving approval and completing the transfer of control, Wisconsin Energy Corporation was renamed WEC Energy Group, Inc. (WEC), and Integrys Energy Group, Inc., transitioned to Integrys Holding, Inc. (Integrys).

On June 9, 2016, the Commission issued an order in Case No. U-17682 and in this proceeding, determining that WEC could file its application no sooner than June 14, 2016.

On June 14, 2016, Wisconsin Electric Power Company (WEPCo) and WPS Corp filed an application in this docket for approval, pursuant to MCL 460.6q, of the transfer of WEPCo's Michigan electric distribution assets and WPS Corp's Michigan electric and natural gas distribution assets to Upper Michigan Energy Resources Corporation (UMERC), a to-be-formed Michigan jurisdictional regulated utility providing service to electric and natural gas customers only in Michigan. WEPCo is a wholly-owned subsidiary of WEC. WPS Corp is a wholly-owned subsidiary of Integrys, which is a wholly-owned subsidiary of WEC. WEPCo, WPS Corp, and UMERC are collectively referred to as the Joint Applicants.

On July 8, 2016, a prehearing conference was held before Administrative Law Judge Martin D. Snider (ALJ). The ALJ granted intervention to Fibrek, Cloverland Electric Cooperative (Cloverland), Tilden Mining Company, L.C. (Tilden), and the Michigan Department of the Attorney General (Attorney General). The Commission Staff (Staff) also participated in the proceedings. The parties agreed to a schedule.

On July 13, 2016, the ALJ issued a ruling adopting a protective order and a scheduling memo indicating that the Commission would read the record in this matter.

On July 20, 2016, Verso Corporation (Verso) filed a petition for leave to intervene out of time. On August 18, 2016, the parties filed a joint stipulation to the admission of Verso as a party.

On August 19, 2106, the ALJ issued a revised scheduling memo.

On September 9, 2016, the Staff, the Attorney General, Cloverland, and Tilden filed direct testimony. On September 20, 2016, the Joint Applicants and the Attorney General filed rebuttal testimony. On October 4, 2016, the Staff filed a motion to strike portions of the testimony of the Attorney General's witness.

An evidentiary hearing took place on October 14, 2016. At that hearing, the Attorney General indicated his agreement to strike the testimony that was the subject of the Staff's motion. Pre-filed direct and rebuttal testimony was bound into the record and cross-examination took place. The record consists of 329 pages of transcript and 42 exhibits, some admitted confidentially.

On October 14, 2016, the parties filed a settlement agreement resolving all issues in this matter. Additionally, on October 14, 2016, the parties filed a joint stipulation to admit Exhibit AG-3 into the record.

Summary Background

WEPCo provides retail electric service to approximately 27,500 full service customers and approximately 50 choice customers in the Upper Peninsula (UP). Its rates were last set in the June 26, 2012 order in Case No. U-16830. WPS Corp has approximately 9,000 full service electric customers, 5,300 gas customers, 16 electric choice customers, and 17 gas transportation customers in the UP. Its electric rates were last set in the April 23, 2015 order in Case No. U-17669, and its natural gas rates were last set in the June 7, 1983 order in Case No. U-7502.

The Joint Applicants seek approval of the transfer of control of the Michigan based electric distribution assets of WEPCo and WPS Corp, and the Michigan based gas distribution assets and a former manufactured gas plant owned by WPS Corp, to UMERC, a new, standalone, Michigan jurisdictional entity serving electric and gas customers in the UP (the proposed transaction).

UMERC will be a Michigan corporation with offices in Menominee and Iron Mountain, however its books, accounts, papers, and records will be kept in Green Bay and Milwaukee, Wisconsin. Rate books will be maintained in Michigan.

Under the proposed transaction, WEPCo would transfer to UMERC all of WEPCo's Michigan jurisdictional distribution substations, distribution lines, and other distribution assets used in providing retail electric service in Michigan. WPS Corp would transfer all of WPS Corp's Michigan jurisdictional electric and natural gas distribution assets, (as well as other assets), and a former manufactured gas plant site (which has been remediated) located in Menominee County, to UMERC. WEPCo would transfer to UMERC all of WEPCo's Michigan retail full service and choice customers (except for Tilden and Empire Iron Mining Partnership (collectively, the Mines)), and WPS Corp would transfer all of WPS Corp's retail full requirements electric and gas customers, choice electric customers, and gas transportation customers to UMERC. UMERC would begin operations on January 1, 2017, with approximately 36,500 full service electric customers, 5,300 gas customers, 66 electric choice customers, and 17 gas transportation customers. The proposed transaction involves no electric generation assets,[1] and no wholesale customers.

WEPCo also proposes to transfer to UMERC the substations, distribution lines, and other distribution assets used in providing retail electric service to the Mines in Michigan on January 1, 2017. However, WEPCo would continue to serve the Mines (retaining the right to use those distribution assets) until the termination of the 2015-2019 Large Curtailable Special Contracts

[1] WEPCo will retain the Presque Isle Power Plant (PIPP) generation assets, and WEPCo and WPS Corp will retain hydroelectric generation assets in Michigan. The ARSA provides that UMERC will file an application under MCL 460.6s requesting a certificate of necessity (CON) for construction of a new power plant.

between WEPCo and the Mines approved in the April 23, 2015 order in Case No. U-17862, at which time WEPCo will transfer the Mines as customers to UMERC. Additionally, in August 2016, WEC and Tilden entered into a special contract pursuant to which UMERC will provide service to Tilden and will build new generation in the UP (2016 Special Contract). The 2016 Special Contract has not yet been approved by the Commission.

The Joint Applicants propose to create a regulatory asset for decommissioning costs and the remaining book value of PIPP. No specific timeframe for retirement of PIPP has been set. The Joint Applicants request approval to allocate to UMERC a portion of this regulatory asset based on a load ratio share of the WEPCo system as set in the last WEPCo rate case (Case No. U-16830) of 6.595%, and seek a ruling that the PIPP costs allocated to UMERC are a regulatory asset that UMERC is entitled to recover in a future rate case.

As of January 1, 2017, the geographic areas in which UMERC will be providing electric service will be known as the WEPCo Rate Zone and the WPSC Rate Zone, and UMERC will have two power purchase agreements (PPAs) in place. The PPAs will provide slice of system benefits and costs for the two generation systems, similar to the allocation of generation costs in a retail rate case. Cost determination under the PPAs will be formula based, with one formula for capacity costs and another for energy costs. The PPAs are wholesale transactions subject to Federal Energy Regulatory Commission (FERC) regulation and the formulas are based on FERC tariffs. Transmission charges will be based on the actual transmission, ancillary, and other market charges incurred by WPS Corp and WEPCo from the Midcontinent Independent System Operator, Inc. (MISO), and will be passed through to UMERC.

The Joint Applicants request approval of UMERC Rate Book for Electric Service Volume 1, and WEPCo Rate Book for Electric Service Volume 4 (revised to reflect service only under

Rate CpLC for the Mines). The current WEPCo and WPS Corp electric rate books would be combined into one volume for UMERC, without change, but will also contain Rate CpLC for serving the Mines after expiration of the Mines' Special Contracts and the transfer of the Mines to UMERC.

A proposed asset management arrangement (AMA) and base contract between WPS Corp and UMERC provides for the management of day-to-day gas supply operations and the sale of natural gas by WPS Corp to UMERC for the use of UMERC's gas cost recovery customers, and several other service agreements between WPS Corp, WEPCo, and UMERC provide for the continuance of all day-to-day operations.

Briefing

The proposed settlement agreement reflects the summary of the proposed transaction as described above. It also provides that separate renewable energy plans (REPs) for the two rate zones will be created when UMERC files new REP proceedings after approval of the settlement agreement.

MCL 460.6q(1) prohibits a jurisdictional regulated utility from selling, assigning, transferring or encumbering its assets without first obtaining Commission approval. In determining whether to grant the requested approval, the Commission is guided by the factors listed in MCL 460.6q(7):

> (a) Whether the proposed action would have an adverse impact on the rates of the customers affected by the [proposed transaction].
>
> (b) Whether the proposed action would have an adverse impact on the provision of safe, reliable, and adequate energy service in this state.
>
> (c) Whether the action will result in the subsidization of a non-regulated activity of the new entity through the rates paid by the customers of the jurisdictional regulated utility.
>
> (d) Whether the action will significantly impair the jurisdictional regulated utility's ability to raise necessary capital or to maintain a reasonable capital structure.

(e) Whether the action is otherwise inconsistent with public policy and interest.

The Commission has several concerns and finds that, based on the record and the language of the proposed settlement agreement, the Commission is unable to determine whether the settlement meets the required statutory elements, in particular MCL 460.6q(7)(a) and (b), and clarification is necessary. Some of the concerns are as follows:

1) Neither the record nor the settlement agreement provide information or commitments regarding the quality or status of the physical systems that are being transferred, nor do they discuss what reliability investments might be required in the future. How can the Commission be assured that UMERC is committed to making necessary investments and expenditures in the short and long term to maintain distribution reliability, safety, and customer service while ensuring rates are affordable? The Commission expects UMERC to provide its capital and operations plan for review by the Staff on an ongoing basis.
2) Please address WEC's plans from a management, communications, customer relations, and regulatory standpoint to ensure WEC management is responsive to the needs of Michigan customers and other stakeholders.
3) If service is inadequate or too costly, what options are available for UMERC to pursue alternatives and terminate service agreements and purchase power contracts with WEC? What is the ability and process for the Commission, the Staff, and stakeholders to review inputs to the PPA between WEC and UMERC outside of a complaint proceeding at FERC?
4) The settlement agreement does not indicate whether the costs to be included in the regulatory asset for the remaining book value and decommissioning costs of PIPP will be reviewed by the Commission prior to inclusion and ultimate recovery from Michigan ratepayers. Is such a review of historical and any incremental rate base amounts,

depreciation, and any return contemplated by the parties to the settlement? If so, how can the Commission ensure access to necessary information to conduct such a review, including books, records, and inspections, given that PIPP will not be a jurisdictional asset of UMERC?

5) The settlement agreement appears to address issues associated with either the involuntary or voluntary termination of the 2016 Special Contract between WEC and Tilden in only summary fashion. The Commission is concerned that terminations of the contract resulting from scenarios other than bankruptcy have not been explained fully.

6) Renewable energy costs emanating from Wisconsin are currently embedded in the tariffs that would be adopted by UMERC. They would also be embedded in the wholesale tariffs set by FERC that govern the formula used for setting prices under the PPAs. How will the new REP proceedings filed by UMERC for the two zones address this problem?

7) There are numerous service agreements, such as the AMA, existing as part of the transaction in order to keep current service in place. How can the Commission be assured that cost allocations under those agreements will not change in the future to the detriment of Michigan ratepayers? Detail all filings made to FERC regarding cost allocations.

8) The settlement agreement adopts the load ratio share allocation applicable to decommissioning costs and the unrecovered book value for PIPP that was proposed in the application. However, that allocator (6.595%) was set at a time when the Empire Mine was operating. The date of decommissioning of PIPP is unknown, but could likely generate a different allocation factor. This allocator is important because it determines how much customers in Michigan will pay for this retired power plant on a going-forward basis. Given that context, what makes the proposed factor appropriate and equitable for

Michigan ratepayers compared to other methodologies such as determining the actual load ratio share at the time of retirement or an average from 2016 until the date of retirement?

9) UMERC will be located in the American Transmission Company (ATC) Transmission Pricing Zone and Local Resource Zone 2, as a single pricing and resource zone. Currently, the ATC Transmission Pricing Zone includes a portion of Wisconsin, and baseline reliability projects in this zone are subject to cost sharing between Michigan and Wisconsin. Planning reserve requirements and related capacity issues are also determined for Zone 2 based on the combined capacity, load, and transmission capability of eastern Wisconsin and Michigan's UP. With the approval of UMERC, how can the Commission be assured that costs currently shared would not ultimately be shifted to Michigan ratepayers?

The parties shall file initial briefs addressing these concerns no later than 5:00 p.m. on November 23, 2016. Given the extremely tight time-frame imposed by the statute and the fact that all remaining dates in the case have been cancelled, these briefs shall also address the merits of the application and how the application furthers the public interest. Any party wishing to file a reply brief shall do so no later than 5:00 p.m. on December 1, 2016.

THEREFORE, IT IS ORDERED that the parties to the proposed settlement shall file initial briefs addressing the concerns outlined in this order, as well as the merits of the application, no later than 5:00 p.m. on November 23, 2016. Any party wishing to file a reply brief shall do so no later than 5:00 p.m. on December 1, 2016.

The Commission reserves jurisdiction and may issue further orders as necessary.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of November 7, 2016.

Kavita Kale, Executive Secretary